

# Agency Funds

## Answers to Frequently Asked Questions



### **What is an agency fund?**

An agency fund is a type of designated fund established by a charity at a community foundation for the charity's own benefit or the benefit of a related entity. The donor or resource provider and the beneficiary recipient organization are the same entity. When the agency establishes the fund, the variance power and legal ownership over the asset is transferred to the community foundation.

### **What types of organization can establish an agency endowment at a community foundation?**

A public charity under Section 509(a)(1), 509(a)(2), or 509(a)(3) may establish an agency endowment at a community foundation. This may include an endowment created by a government unit. A community foundation should not establish an agency endowment for a private foundation or non-charity.

### **When a public charity establishes an agency endowment at a community foundation, which organization owns the contributed funds?**

The community foundation has legal ownership of funds contributed to an agency fund. As such, the community foundation's board has fiduciary responsibility over the funds. The legal ownership of the funds is a frequent source of confusion between agencies and community foundations.

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-605-15-8 requires that an agency recognize a beneficial interest in the assets held by a community foundation as an asset on the agency's books. While ASC 958-605-15-8 requires the agency to recognize a beneficial interest in the assets held by a community foundation, the ASC only affects the accounting treatment of the funds, not the legal ownership.

## **Since the agency is releasing legal ownership of the transferred assets, how can the agency's board agree to the transfer of assets to establish an agency endowment without violating its fiduciary duties?**

The agency's board must make the decision regarding whether transferring legal ownership of the funds to establish an agency endowment is consistent with its fiduciary duties. An agency's board may decide that such a transfer is prudent and consistent with its fiduciary responsibility to the organization because of the benefits provided as a result of the relationship with the community foundation. For example, the agency may benefit from the expertise of the community foundation in long-term management of assets, the flexibility the community foundation may provide by accepting types of non-cash contributions not accepted by the agency, or the protection that the transfer will provide by establishing an endowment at a separate organization.

## **Can a community foundation accept a non-endowed fund from an agency?**

If established properly, a community foundation may accept a non-endowed (aka spend-down) fund from an agency. The key is that the agency may not reserve the right to unilaterally withdraw the fund from the community foundation. Instead, grants to the agency must be subject to the community foundation's approval.

## **Who can donate to an agency fund (other than the beneficiary charity)?**

**Third Party Contributions** – Individual donors may not make contributions to an agency fund. Individual donors may contribute directly to the organization for the agency fund, or they may create a designated fund at the community foundation to benefit the organization. The Community Foundation for the Fox Valley Region does not support fundraising activities by your organization and cannot accept gifts into the fund from donors generated by those activities.

**Legacy or Estate Contributions** – A community foundation can receive distributions from charitable trusts or bequests from an estate on behalf of your organization and create a designated fund. Our team members at the Community Foundation for the Fox Valley Region work with your donors across the full range of planned contributions, including bequests, beneficiary designations, and charitable trusts to receive assets for the future of the fund.

Designated funds are different from agency funds; please ask our gift planning staff for more [information](#).

### **Sample Accounting Entries (by agency non-profit):**

#### **Creation of the fund:**

**Debit:** Beneficial interest in assets held by community foundation

**Credit:** Cash

*(Assets and net assets are measured at present value based on the expected future cash flows to the non-profit)*

#### **Ongoing entries:**

The non-profits interest in the endowment fund at the Community Foundation is similar in nature to an interest in a perpetual trust – in that the non-profit has an interest in a future income stream from the trust. As with a perpetual trust, the non-profit generally does not have access to the principal value of the assets held in the community foundation endowment fund (under the terms of the fund agreement).

Based on the premise that a non-profit endowment fund is like a perpetual trust, the following accounting entries would be made throughout the life of the fund to account for changes in value and distributions from the assets held at the community foundation.

#### **Income payments during the holding period** (distributions received)

**Debit:** Cash

**Credit:** Investment income

#### **Periodic Valuation** (changes in value of the endowment fund)

**Debit:** Beneficial interest in assets held at community foundation

**Credit:** Gain or loss

### **Investments: Prudently investing charitable funds**

- The Community Foundation for the Fox Valley Region's investment strategy is managed by Fund Evaluation Group (FEG), our outsourced Chief Investment Officer (OCIO). Learn more about FEG at: [Fund Evaluation Group \(feg.com\)](http://FundEvaluationGroup.com)
- The investment strategy and performance are overseen by a [volunteer Investment Committee](#) comprised of local professionals knowledgeable in investment and finance. They measure performance against a benchmark that is a composite built from percentages of a variety of investment indices.

- The Community Foundation has a diversified strategic asset allocation strategy. Learn more [here](#).
- Investment managers selected by FEG are experienced in specialized sectors of the markets.
- These investment managers manage risk while providing stability and growth for fund assets.

**Sources:**

- *Council on Foundations article “FAQ: Agency Endowment Funds”*
- *Council on Foundations article “Accounting for Agency Endowment Funds Held at Community Foundations”*

**Caveat:**

*The above information is being provided with general information related to the agency agreement between a non-profit agency fund and the Community Foundation for the Fox Valley Region. Each non-profit organization should consult with its own auditors, tax professionals, and legal counsel in determining the best solution for its needs. The above is not to be construed as tax, accounting, or legal advice.*

Questions? Contact the [Agency Funds Team here](#).